



**STATE OF DELAWARE  
DEPARTMENT OF TRANSPORTATION**

Financial Statements

June 30, 2007 and 2006

(With Independent Auditors' Report Thereon)

## Table of Contents

	Page
Independent Auditors' Report.....	1
Management's Discussion and Analysis .....	3
Financial Statements	
Balance Sheets .....	9
Statements of Revenues, Expenses, and Change in Fund Net Assets .....	11
Statements of Cash Flows.....	13
Notes to Financial Statements.....	15
Required Supplementary Information	
Supplementary Information for Governments That Use the Modified Approach for Infrastructure Assets .....	46
Additional Information	
Schedule of Revenue Bond Coverage.....	49



KPMG LLP  
1601 Market Street  
Philadelphia, PA 19103-2499

## Independent Auditors' Report

Delaware Department of Transportation  
Dover, Delaware:

We have audited the accompanying balance sheets of the State of Delaware Department of Transportation (Department of Transportation) which is an Enterprise Fund of the State of Delaware, as of the years ended June 30, 2007 and 2006, and the related statements of revenue, expenses, and changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of the Department of Transportation's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the auditing standards generally accepted in the United States of America and standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Department of Transportation's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluation of the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As discussed in Note A, the financial statements present only the State of Delaware Department of Transportation and do not purport to, and do not, present fairly the financial position of the State of Delaware, as of June 30, 2007 and 2006, and the changes in its financial position for the years then ended in conformity with U.S. generally accepted accounting principles.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the State of Delaware Department of Transportation as of June 30, 2007 and 2006, and the changes in its financial position and its cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

Management's discussion and analysis and required supplementary information for governments that use the modified approach for infrastructure assets on pages 3 through 8 and 46 through 47 are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.



In accordance with *Government Auditing Standards*, we have also issued our report dated October 12, 2007, on our consideration of the Department of Transportation's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and other financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The additional information, as listed in the table of contents and presented on page 49, is presented for purposes of additional analysis and is not a required part of the financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion or any other form of assurance on the additional information.

KPMG LLP

October 12, 2007

**State of Delaware  
Department of Transportation**

**Management's Discussion and Analysis**

This section of the Delaware Department of Transportation's (the Department) annual financial statements presents our discussion and analysis of the Department's financial performance during the fiscal year ended June 30, 2007.

**Background**

The mission of the Department is to provide a safe, efficient, and environmentally sensitive transportation network that offers a variety of convenient, cost-effective mobility opportunities for the movement of people and goods. The Department is responsible for the construction and maintenance of the State of Delaware's (the State) roadways, bridges, and public transportation systems, and for the coordination and development of the State's comprehensive, balanced transportation planning and policies.

**Financial Highlights**

- Total operating revenues were \$379.4 million, a 0.2% increase over fiscal year 2006.
- Total operating expenses increased \$13.3 million to \$461.3 million, a 3% increase over fiscal year 2006.
- The Department went to the bond market in November 2006 and issued \$127.4 million of bonds and again in April 2007 to refund \$87.9 million of bonds.
- Total capital assets (net of depreciation) were \$3,631.1 million at June 30, 2007, and net assets were \$2,895.9 million.

**Overview of the Financial Statements**

The financial section of this annual report consists of five parts: 1) management's discussion and analysis (this section), 2) the basic financial statements, 3) notes to the financial statements, 4) required supplementary information, and 5) additional information.

The financial statements provide both long-term and short-term information about the Department's overall financial status. The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data. The statements are followed by required supplementary information and additional information that further explains and supports the information in the financial statements.

**State of Delaware  
Department of Transportation**

**Management's Discussion and Analysis (Continued)**

The Department's financial statements are prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to government units on an accrual basis. Under this basis, revenues are recognized in the period in which they are earned, expenses are recognized in the period in which they are incurred, and depreciation of assets is recognized in the statements of revenues, expenses, and change in fund net assets. All assets and liabilities associated with the operation of the Department are included in the balance sheets.

**Financial Analysis of the Department**

*Balance Sheets*

The Department's total assets increased \$120.6 million to \$4,041.0 million, and total liabilities increased \$59.2 million to \$1,145.1 million. Net assets at June 30, 2007 were \$2,895.9 million, a \$61.4 million increase from June 30, 2006.

Department of Transportation's Net Assets  
(in millions of dollars)

	<u>2007</u>	<u>2006</u>	<u>Change 2007-2006</u>
Current assets	\$ 338.9	\$ 244.8	94.1
Capital assets	3,631.1	3,595.0	36.1
Other noncurrent assets	<u>71.0</u>	<u>80.6</u>	<u>(9.6)</u>
 Total assets	 <u>\$4,041.0</u>	 <u>\$3,920.4</u>	 <u>120.6</u>
 Current liabilities	 \$ 156.4	 \$ 141.5	 14.9
Noncurrent liabilities	<u>988.7</u>	<u>944.4</u>	<u>44.3</u>
 Total liabilities	 <u>\$1,145.1</u>	 <u>\$1,085.9</u>	 <u>59.2</u>
 Net assets			
Invested in capital assets, net of debt	\$2,653.3	\$2,616.9	36.4
Restricted	153.8	141.6	12.2
Unrestricted	<u>88.8</u>	<u>76.0</u>	<u>12.8</u>
 Total net assets	 <u>\$2,895.9</u>	 <u>\$2,834.5</u>	 <u>61.4</u>

**State of Delaware  
Department of Transportation**

**Management's Discussion and Analysis (Continued)**

Current assets increased due to higher investment balances at year end. Attributing factors to increased liabilities are greater accounts payable and increased bonds payable debt due to fiscal year 2007 bond issuance.

*Change in Net Assets*

The Department's net assets at June 30, 2007 were \$61.4 million higher than at June 30, 2006. The Department's total operating revenues increased \$0.8 million, and total operating expenses increased \$13.3 million.

Change in the Department of Transportation's Net Assets  
(in millions of dollars)

	<u>2007</u>	<u>2006</u>	<u>Change 2007-2006</u>
Operating revenues	\$ 379.4	\$ 378.6	0.8
Operating expenses			
Operating expenses	446.9	432.6	14.3
Depreciation	<u>14.4</u>	<u>15.4</u>	<u>(1.0)</u>
Total operating expenses	<u>461.3</u>	<u>448.0</u>	<u>13.3</u>
Operating loss	(81.9)	(69.4)	(12.5)
Nonoperating revenues, net	<u>76.0</u>	<u>73.0</u>	<u>3.0</u>
Income (loss) before transfers	(5.9)	3.6	(9.5)
Transfers, net	<u>67.3</u>	<u>97.2</u>	<u>(29.9)</u>
Change in fund net assets	61.4	100.8	(39.4)
Total net assets - beginning of year	<u>2,834.5</u>	<u>2,733.7</u>	<u>100.8</u>
Total net assets - end of year	<u>\$2,895.9</u>	<u>\$2,834.5</u>	<u>\$ 61.4</u>

The October 1, 2005 toll rate increase at I-95 was the main contributor for the operating revenue increase; and the largest contributing factor for the increase in operating expenses for fiscal year 2007 was the \$35.5 million increase in maintenance, preservation, and repairs.

**State of Delaware  
Department of Transportation**

**Management's Discussion and Analysis (Continued)**

**Capital Assets and Debt Administration**

*Capital Assets*

As of June 30, 2007, the Department had invested \$3,746 million in capital assets, including roads, bridges, buildings, land, and equipment. Net of accumulated depreciation, the Department's net capital assets at June 30, 2007 totaled \$3,631.1 million. This amount represents a net increase (including additions and net of disposals, and depreciation) of \$36.1 million over June 30, 2006. Contributing to this increase were the Riverfront and Route 141/US 202 projects.

The Department is using the "Modified Approach" for determining condition assessments on its roads and bridges. The modified approach requires that the Department initially set a percentage benchmark for maintaining the infrastructure in fair or better condition and report at least every three years on their condition assessments.

It is the Department's policy to maintain at least 85% of its highway system at a fair or better condition rating and 75% of its bridge system at a good or better condition rating as follows:

The condition of road pavement is measured using the Overall Pavement Condition (OPC) system, which is based on the extent and severity of various pavement distresses that are visually observed. The OPC system uses a measurement scale that is based on a condition index ranging from 0 for poor pavement to 5 for pavement in excellent condition.

The condition of the bridges is measured using the "Bridge Condition Rating" (BCR), which is based on the Federal Highway Administration's (FHWA) Coding Guide, "Recording and Coding Guide for the Structure Inventory and Appraisal of the Nation's Bridges." The BCR uses a measurement scale that is based on a condition index ranging from 0 to 4 for substandard bridges to 9 for bridges in perfect condition. For reporting purposes, substandard bridges are classified as those with a rating of 4 or less. The good or better condition bridges are taken as those with ratings of 6 to 9. A 5 rating is considered fair. The information is taken from past "Bridge Inventory Status" reports.

The Department performs condition assessments of eligible infrastructure assets at least every three years. Currently, road condition assessments are conducted every year, and bridge condition assessments are conducted every two years.

**State of Delaware  
Department of Transportation**

**Management's Discussion and Analysis (Continued)**

Of the Department's 1,417 bridges that were rated in 2006, 78.5% received a good or better BCR rating (a 2.9% increase over 2005), 17.3% were rated fair, and 4.2% received a substandard rating. Of the 7,267,932 square feet of bridge deck that was rated, 94.4% or 6,860,141 square feet received an OPC condition rating of good or better (a 0.4% increase over 2005), 5.3% received a fair rating, and 0.3% received a substandard deck rating.

In 2006, 4,454 center line miles were rated; 89.5% received a fair or better OPC rating and 10.5% received a poor rating.

The 2007 estimate to maintain and preserve the Department's infrastructure was \$129.1 million, but the actual expenditure was \$256.6 million, which is \$127.4 million over the estimate. The variance is predominantly attributed to change orders necessary on jobs that are not estimated when the project is set up and budgeted and increased material costs. Escalating costs for materials for repairs to the tertiary roads have resulted in less miles of pavement rehabilitation for the same amount of money.

*Debt Administration*

Transportation Systems Revenue Bonds are issued with the approval of the State and the State's Bond Issuing Officers (the Governor, the Secretary of Finance, the Secretary of State, and the State Treasurer) to finance improvements to the State's transportation systems. Approval by the General Assembly of the State is not required for the Delaware Transportation Authority (the Authority) to issue bonds to refund any of its bonds provided that a present value debt service savings is achieved in such refunding. The sales must comply with the rules and regulations of the United States Treasury Department and the United States Securities and Exchange Commission.

At June 30, 2007, the Authority had \$1,018.8 million in revenue bonds outstanding, a 6.9% increase over June 30, 2006. During the past year, \$127.4 million of new money bonds were issued and \$87.9 million of bonds were refunded. Of the 12 outstanding bond issues, all insured bonds are rated AAA by S&P and Aaa by Moody's; and the uninsured bonds are rated AA+ and Aa3, respectively.

**Next Year's Budget**

The Department's fiscal year 2008 Operating Annual Budget adopted by the General Assembly in June 2007 totals \$350.9 million and the fiscal year 2008 Capital Improvements Act totals \$256.0 million in State authorized funds. The Capital Improvements Act authorizes funding of the following improvements: \$192.9 million of Road System, \$23.1 million of Grants and Allocations, \$14.7 million of Transit System,

**State of Delaware  
Department of Transportation**

**Management's Discussion and Analysis (Continued)**

and \$25.3 million for Support System. The Capital Improvements Act authorizes an additional \$184.7 million in federal funding. The spending of these capital authorizations will occur over several years. The capital spending forecast for fiscal year 2008 is \$553.4 million, inclusive of \$289.5 and \$263.9 million in state and federal funding, respectively.

**Contacting the Department's Financial Management**

This financial report is designed to provide bondholders, patrons, and other interested parties with a general overview of the Department's finances and to demonstrate the Department's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Delaware Department of Transportation, Finance Unit, P.O. Box 778, Dover, DE 19903.

**State of Delaware  
Department of Transportation**

**Balance Sheets**

**June 30, 2007 and 2006  
See Independent Auditors' Report**

	<u>2007</u>	<u>2006</u>
<b>CURRENT ASSETS</b>		
Cash and cash equivalents		
Unrestricted	\$ 33,191,838	\$ 36,633,706
Restricted	1,611,525	2,001,277
Investments - at fair value		
Unrestricted	155,311,250	69,527,635
Restricted	109,086,650	95,785,922
Accrued interest receivable	2,099,327	1,294,930
Accounts receivable		
Trade	11,797,726	13,360,708
Federal grant	10,022,824	9,768,035
Loan receivable	1,198,203	1,152,692
Inventory	12,927,684	13,089,356
Escrow insurance deposits	1,283,817	1,933,042
Prepaid expenses	356,841	239,370
	<hr/>	<hr/>
Total current assets	338,887,685	244,786,673
<b>NONCURRENT ASSETS</b>		
Capital assets, not depreciable		
Land	206,410,807	211,272,425
Infrastructure	3,283,783,059	3,255,998,018
Construction in progress	21,240,047	15,311,430
Capital assets, depreciable		
Buildings and improvements	55,050,604	54,857,775
Fixtures and equipment	179,466,325	161,943,809
	<hr/>	<hr/>
	3,745,950,842	3,699,383,457
Less: accumulated depreciation	114,864,034	104,353,659
	<hr/>	<hr/>
Capital assets	3,631,086,808	3,595,029,798
Investments - at fair value		
Unrestricted	3,246,128	666,094
Restricted	43,252,196	44,495,196
Accrued interest receivable	80,203	697,673
Loans receivable	23,462,845	34,071,992
Prepaid pension	976,275	688,884
	<hr/>	<hr/>
Total noncurrent assets	3,702,104,455	3,675,649,637
	<hr/>	<hr/>
<b>TOTAL ASSETS</b>	<u>\$ 4,040,992,140</u>	<u>\$ 3,920,436,310</u>

See notes to financial statements.

**State of Delaware  
Department of Transportation**

**Balance Sheets**

**June 30, 2007 and 2006  
See Independent Auditors' Report**

	<u>2007</u>	<u>2006</u>
<b>CURRENT LIABILITIES</b>		
Accounts payable and other accrued expenses	\$ 37,095,718	\$ 27,781,989
Accrued payroll	8,526,042	7,794,801
Compensated absences payable	4,013,768	3,802,292
Escrow deposit	1,548,246	1,937,148
Claims and judgments	2,457,537	2,355,513
Deferred revenue	4,313,896	5,040,226
General obligation bonds payable	599,955	812,259
Revenue bonds payable	67,640,000	61,370,000
Bond issue premium - net of accumulated amortization	6,623,371	6,814,934
Interest payable	<u>23,636,964</u>	<u>23,828,878</u>
Total current liabilities	156,455,497	141,538,040
<b>NONCURRENT LIABILITIES</b>		
Compensated absences - net of current portion	9,609,620	10,672,526
Claims and judgments - net of current portion	2,377,463	14,334,276
General obligation bonds payable - net of current portion	2,783,007	3,435,812
Revenue bonds payable - net of current portion	951,175,000	891,895,000
Bond issue premium - net of accumulated amortization and current portion	<u>22,730,536</u>	<u>24,079,921</u>
Total noncurrent liabilities	<u>988,675,626</u>	<u>944,417,535</u>
Total liabilities	1,145,131,123	1,085,955,575
<b>NET ASSETS</b>		
Invested in capital assets - net of related debt	2,653,213,762	2,616,901,611
Restricted	153,834,146	141,547,053
Unrestricted	<u>88,813,109</u>	<u>76,032,071</u>
Total net assets	<u>2,895,861,017</u>	<u>2,834,480,735</u>
 <b>TOTAL LIABILITIES AND NET ASSETS</b>	 <u><u>\$ 4,040,992,140</u></u>	 <u><u>\$ 3,920,436,310</u></u>

**State of Delaware**  
**Department of Transportation**  
**Statements of Revenues, Expenses, and**  
**Change in Fund Net Assets**

**June 30, 2007 and 2006**  
**See Independent Auditors' Report**

	<u>2007</u>	<u>2006</u>
OPERATING REVENUES		
Pledged revenue		
Turnpike revenues	\$ 96,747,605	\$ 87,696,331
Motor vehicle and related revenue	<u>235,432,115</u>	<u>239,129,928</u>
Total pledged revenue	332,179,720	326,826,259
Toll revenue - Delaware SR-1	32,606,361	31,524,365
Passenger fares	10,617,443	9,991,912
E-ZPass expense reimbursement	-	366,419
Miscellaneous revenue	<u>3,983,055</u>	<u>9,909,319</u>
Total operating revenues	379,386,579	378,618,274
OPERATING EXPENSES		
Maintenance, preservation, and repairs	160,684,035	125,161,593
Occupancy expenses	11,276,497	13,571,268
Office expense	7,095,641	7,658,600
Payroll expense	124,216,331	120,765,639
Professional fees	74,849,266	103,979,336
Supplies and other	17,600,583	15,852,505
Vehicle operations	51,160,713	45,651,395
Depreciation	<u>14,374,765</u>	<u>15,359,458</u>
Total operating expenses	<u>461,257,831</u>	<u>447,999,794</u>
OPERATING LOSS	(81,871,252)	(69,381,520)

Continued...

**State of Delaware**  
**Department of Transportation**  
**Statements of Revenues, Expenses, and**  
**Change in Fund Net Assets (Continued)**

**June 30, 2007 and 2006**  
**See Independent Auditors' Report**

	<u>2007</u>	<u>2006</u>
NONOPERATING REVENUES (EXPENSES)		
Pledged revenue - income from investments (net of fees)	\$ 14,774,453	\$ 10,523,310
Income from investments (net of fees)	1,278,786	885,023
Net increase (decrease) in the fair value of investments	783,536	(954,254)
Federal grant revenue	103,331,185	107,462,277
Grant expenses	(1,377,498)	(3,417,894)
Gain (loss) on asset disposal	420,247	(4,211,450)
Interest expense	<u>(43,207,653)</u>	<u>(37,346,668)</u>
Excess of nonoperating revenues over expenses	<u>76,003,056</u>	<u>72,940,344</u>
INCOME (LOSS) BEFORE TRANSFERS	(5,868,196)	3,558,824
TRANSFERS TO RIVERFRONT DEVELOPMENT CORPORATION	(3,100,000)	-
TRANSFERS TO DELAWARE DEPARTMENT OF NATURAL RESOURCES AND ENVIRONMENTAL CONTROL	(4,060,050)	-
TRANSFERS FROM STATE GENERAL FUND	<u>74,408,528</u>	<u>97,237,590</u>
CHANGE IN FUND NET ASSETS	61,380,282	100,796,414
TOTAL FUND NET ASSETS - BEGINNING OF YEAR	<u>2,834,480,735</u>	<u>2,733,684,321</u>
TOTAL FUND NET ASSETS - END OF YEAR	<u><u>\$ 2,895,861,017</u></u>	<u><u>\$ 2,834,480,735</u></u>

See notes to financial statements.

**State of Delaware  
Department of Transportation**

**Statements of Cash Flows**

**June 30, 2007 and 2006  
See Independent Auditors' Report**

	<u>2007</u>	<u>2006</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Operating receipts	\$ 378,922,125	\$ 369,955,229
Payments to suppliers and employees	(447,347,588)	(441,119,692)
Insurance claims paid	(2,828,819)	(2,355,513)
Other receipts	<u>1,301,106</u>	<u>2,117,428</u>
Net cash used in operating activities	(69,953,176)	(71,402,548)
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>		
Proceeds from State General Fund	<u>74,408,528</u>	<u>97,237,590</u>
Net cash provided by noncapital financing activities	74,408,528	97,237,590
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Payments of revenue bond principal	(61,370,000)	(58,445,000)
Payment to escrow agent for refunding of revenue bonds	(88,415,000)	-
Proceeds from revenue bond sale	215,335,000	150,000,000
Payments of general obligation bond principal	(865,109)	(582,693)
Payment of note principal	-	(40,000,000)
Premium from revenue bond sale	6,179,669	8,417,842
Proceeds from capital grants	101,698,898	102,390,550
Acquisition of capital assets	(65,599,965)	(124,080,093)
Proceeds from sale of land and equipment	8,428,387	1,628,782
Payments of interest	<u>(51,120,184)</u>	<u>(41,999,811)</u>
Net cash provided by (used in) capital and related financing activities	64,271,696	(2,670,423)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchase of investments	(99,637,841)	(19,332,547)
Repayment on loan receivable	11,745,028	1,108,909
Escrow insurance deposits	649,225	(776,582)
Interest received	<u>14,684,920</u>	<u>9,458,984</u>
Net cash used in investing activities	<u>(72,558,668)</u>	<u>(9,541,236)</u>
Net increase (decrease) in cash and cash equivalents	(3,831,620)	13,623,383

Continued...

**State of Delaware  
Department of Transportation**

**Statements of Cash Flows (Continued)**

**June 30, 2007 and 2006  
See Independent Auditors' Report**

	<u>2007</u>	<u>2006</u>
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	\$ 38,634,983	\$ 25,011,600
CASH AND CASH EQUIVALENTS - END OF YEAR	<u>\$ 34,803,363</u>	<u>\$ 38,634,983</u>
<b>RECONCILIATION OF OPERATING LOSS TO NET CASH USED IN OPERATING ACTIVITIES</b>		
Net operating loss	\$ (81,871,252)	\$ (69,381,520)
Adjustments to reconcile net operating loss to net cash used in operating activities		
Depreciation	14,374,765	15,359,458
Changes in assets and liabilities		
(Increase) decrease in accounts receivable	1,562,982	(5,847,759)
(Increase) decrease in inventory	161,672	(432,704)
Increase in prepaid expenses	(117,471)	(162,319)
Increase in prepaid pension	(287,391)	(206,528)
Increase (decrease) in accounts payable	9,313,729	(13,231,058)
Increase (decrease) in accrued payroll and related expenses	(120,189)	3,188,747
Decrease in deferred revenue	(726,330)	(1,326,193)
Increase (decrease) in other accrued expenses	<u>(12,243,691)</u>	<u>637,328</u>
Net cash used in operating activities	<u>\$ (69,953,176)</u>	<u>\$ (71,402,548)</u>
<b>SUPPLEMENTAL DISCLOSURES OF NONCASH INVESTING AND CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Interest capitalized on Diamond State Port Corporation loan	<u>\$ 1,181,392</u>	<u>\$ 1,348,641</u>
Transfers of land to Riverfront Development Corporation	<u>\$ 3,100,000</u>	<u>\$ -</u>
Transfers of land to Delaware Department of Natural Resources and Environmental Control	<u>\$ 4,060,050</u>	<u>\$ -</u>

See notes to financial statements.

**State of Delaware  
Department of Transportation**

**Notes to Financial Statements**

**See Independent Auditors' Report**

**Note A - Organization**

The Delaware Department of Transportation (the Department) is an agency of the State of Delaware (the State). The Department has the overall responsibility for coordinating and developing comprehensive, balanced transportation planning and policies for the State. In addition, the Department has overall responsibility for maintenance and operation of roadways and bridges that fall under its jurisdiction. To assist the Department in their mission, the State and the Department created the Delaware Transportation Authority (the Authority), which includes the Transportation Trust Fund (the Trust Fund) and the Delaware Transit Corporation (DTC).

The Trust Fund was created by the State, within the Authority, under the Transportation Trust Fund Act of 1987 (the TTF Act). The underlying purpose of the TTF Act and the Trust Fund is to address the growing urgency to provide additional means to finance the maintenance and development of the integrated highway, air, and water transportation system in the State for the economic benefit of the State and for the welfare and safety of the users of the transportation system. The primary funding of the Trust Fund comes from motor fuel taxes, motor vehicle document fees, motor vehicle registration fees, and other transportation related fees, which are imposed and collected by the State and transferred to the Trust Fund. The State has irrevocably pledged, assigned, and continuously appropriated to the Trust Fund these taxes and fees. The other major sources of revenue for the Trust Fund are the Delaware Turnpike and the Delaware SR-1 Toll Roads, both of which the Authority owns and operates. The Authority may apply Trust Fund revenue for transportation projects, subject to the approval of the State, and may pledge any or all of this revenue to secure financing for these projects.

The TTF Act also granted the Authority the power to issue bonds payable from and secured by the revenues pledged and assigned to the Trust Fund.

The Trust Agreements in effect at June 30, 2007 and 2006 are the Motor Fuel Tax Revenue Bond Trust Agreement (the Motor Fuel Tax Agreement), dated September 1, 1981, as supplemented, and the Transportation Trust Fund Agreement (the Trust Agreement), dated August 1, 1988, as supplemented.

**State of Delaware  
Department of Transportation**

**Notes to Financial Statements (Continued)**

**See Independent Auditors' Report**

**Note A - Organization (Continued)**

The Trust Agreement is a bond indenture, intended to ensure payment to bond holders through assets and revenues pledged to the Trust Fund. Pledged revenues fund certain accounts created under Section 4.02 of the Trust Agreement and, to the extent those revenues are not needed for that purpose, they are deposited, lien-free, to the Trust Fund. Surplus pledged revenues and nonpledged revenues of the Trust Fund may be used to fund the operations of the Department.

The provisions of the Motor Fuel Tax Agreement and the Trust Agreement govern the disposition of revenues and other income and prescribe certain accounting practices, including the conditions for transfer of monies among the various funds and accounts held by the Authority or the Trustee and the use of such funds.

Pursuant to Title 2 of the Delaware Code, Sections 1304(a) and 1307(a) as enacted by 69 Delaware Law Chapter 435, DTC was created in fiscal year 1995 as a subsidiary public corporation of the Authority. DTC is authorized to operate the public transportation system within the State.

**Note B - Summary of Significant Accounting Policies**

**1. Basis of Accounting**

The Department operates as an enterprise fund. The Department's financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Under this method, revenues are recorded when earned, and expenses are recorded at the time liabilities are incurred, regardless of the timing of the related cash flows.

**2. Cash and Cash Equivalents**

Cash and cash equivalents consist of demand deposits, short-term money market securities, and other deposits held by financial institutions, generally with original maturities of three months or less.

**State of Delaware  
Department of Transportation**

**Notes to Financial Statements (Continued)**

**See Independent Auditors' Report**

**Note B - Summary of Significant Accounting Policies (Continued)**

**2. Cash and Cash Equivalents (Continued)**

Included in unrestricted cash at June 30, 2007 and 2006 was \$3,551,183 and \$3,525,978, respectively, which will be utilized to fund the remaining unpaid loss insurance liability (see Note Q).

The Department maintains cash escrow accounts for administrative purposes and has classified these cash balances as restricted. An offsetting liability is recorded in the accompanying balance sheets.

**3. Allowance for Doubtful Accounts**

Accounts receivable are expected to be fully collectible at June 30, 2007 and 2006, and accordingly, a provision for uncollectible accounts has not been established.

**4. Inventory**

Inventory is accounted for at the lower of cost or market. Cost is determined using the weighted average method.

**5. Investments**

Investments are recorded at their fair value. Investments at June 30, 2007 and 2006 consisted of United States Government Obligations and Commercial Paper classified as "Qualified Investments" by the Trust Agreement.

**6. Management Estimates**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**State of Delaware  
Department of Transportation**

**Notes to Financial Statements (Continued)**

**See Independent Auditors' Report**

**Note B - Summary of Significant Accounting Policies (Continued)**

**7. Financial Accounting Standards Board (FASB) Pronouncements**

The Department has elected not to apply FASB pronouncements issued after November 30, 1989.

**8. Capital Assets**

Capital assets, which include land, buildings, improvements, fixtures, equipment, and infrastructure assets (such as roads and bridges, which are normally immovable and of value only to the State), are reported in the enterprise fund financial statements.

Capital assets are defined by the State as assets with an initial individual cost of more than \$25,000 at the date of acquisition and an estimated useful life in excess of one year. It is the policy of the Department to capitalize all buildings, land, and land improvements, regardless of cost, and to capitalize infrastructure when the cost of individual items or projects exceeds \$1,000,000. Such assets are recorded at historical cost, or estimated historical cost, if original cost is not determinable. Donated capital assets are recorded at estimated fair market value at the time of the donation. Buildings, improvements, fixtures, and equipment are depreciated on a straight-line basis.

Capital assets are defined by DTC as all assets purchased with State and federal grant money as well as any asset with a cost greater than \$5,000 purchased with operating money.

For assets not part of infrastructure, the costs of normal preservation, maintenance, and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

For infrastructure, the State uses the "modified approach" to account for roads and bridges, as provided by Governmental Accounting Standards Board (GASB) No. 34. Under this process, the Department does not record depreciation expense nor are amounts expended in connection with improvements to these assets capitalized, unless the improvements expand the capacity or efficiency of an asset. Utilization of this approach

**State of Delaware  
Department of Transportation**

**Notes to Financial Statements (Continued)**

**See Independent Auditors' Report**

**Note B - Summary of Significant Accounting Policies (Continued)**

**8. Capital Assets (Continued)**

requires the Department to: 1) commit to maintaining and preserving affected assets at or above a condition level established by the Department, 2) maintain an inventory of the assets and perform periodic condition assessments to ensure that the condition level is being maintained, and 3) make annual estimates of the amounts that must be expended to maintain and preserve assets at the predetermined condition levels.

The Department maintains two asset management systems, one for the roads and one for the bridges. In addition, the Department completes condition assessments on its roads every year and on its bridges at least every two years.

Buildings, improvements, fixtures, and equipment are depreciated using the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Buildings and improvements	10 - 40
Fixtures and equipment	3 - 12

**9. Compensated Absences**

Compensated absences are absences for which Department employees will be paid, such as vacation and sick leave. A liability for compensated absences that are attributable to services already rendered and that are not contingent on a specific event that is outside the control of the Department and its employees is accrued as employees earn the rights to the benefits. Compensated absences that relate to future services or that are contingent on a specific event that is outside the control of the Department and its employees are accounted for in the period in which such services are rendered or such events take place.

**State of Delaware  
Department of Transportation**

**Notes to Financial Statements (Continued)**

**See Independent Auditors' Report**

**Note B - Summary of Significant Accounting Policies (Continued)**

**10. Bond Issue Premiums/Discounts**

Amortization of bond issue premiums/discounts is provided using the effective interest method over the life of the bond issue. Net amortization resulted in \$7,078,956 and \$7,305,512 of income in 2007 and 2006, respectively.

**11. Revenues and Expenses**

The Department defines nonoperating revenues as federal grant revenue and investment income. All other revenues are derived from normal operations of the Department. Nonoperating expenses are defined as grant expenses and interest expense. All other expenses are a result of normal operations.

**Note C - Cash and Investments**

***Cash Management Policy and Investment Guidelines***

The policy for the investment of Department funds is the responsibility of the Cash Management Policy Board (the Board). The Board, created by State law, establishes policies for, and the terms, conditions, and other matters relating to, the investment of all money belonging to the Department. Under the Board's *Statement of Objectives and Guidelines for the Investment of State of Delaware Funds* (the Policy), all deposits and investments of the Department are categorized as "Authority Accounts." Investments of the Department are further restricted to "Qualified Investments" as defined in the Trust Fund Agreement.

As defined by the Policy, the investment objectives of Authority Accounts include maximizing yield and maintaining the safety of principal. At June 30, 2007 and 2006, investments of the Department are primarily in U.S. Government securities, U.S. Government agency securities, and Commercial Paper rated in the highest rating category by either Moody's or Standard & Poor's. All of these meet the objectives defined by the Policy and are Qualified Investments in accordance with the Trust Fund Agreement.

The Policy is available on the Internet at [www.state.de.us/treasure](http://www.state.de.us/treasure).

**State of Delaware  
Department of Transportation**

**Notes to Financial Statements (Continued)**

**See Independent Auditors' Report**

**Note C - Cash and Investments (Continued)**

***Custodial Credit Risk***

**1. Deposits**

The carrying amounts of the Department's deposits at June 30, 2007 and 2006 were \$34,803,363 and \$38,634,983, respectively, and the bank balances were \$35,937,623 and \$37,922,509, respectively. The differences between bank balances and carrying amounts resulted from outstanding checks and deposits in transit. Of the bank balances, \$30,235,171 and \$23,022,848 were covered by federal depository insurance or by collateral held by the Department's agent, in the Department's name, at June 30, 2007 and 2006, respectively. The remaining bank balances of \$5,702,452 and \$14,899,661 were neither insured nor collateralized at June 30, 2007 and 2006, respectively.

As of June 30 2007 and 2006, the Department had cash and cash equivalents of \$4,760,082 and \$6,800,721, respectively, held by the State of Delaware Treasurer's Office in Dover, Delaware. The Treasurer's Office controls these funds and any investment decisions are made by the State Treasurer's Office. The deposits held by the State investment pool and internal investment pool are specifically identified for the Department, but the credit risk cannot be categorized for these deposits. Credit risk for such deposits depends on the investment decisions made by the State Treasurer's Office.

**2. Investments**

Investments of the Department are stated at fair value. At June 30, 2007 and 2006, all of the Department's investments were insured or registered, with securities held by the Department or the counterparty in the Department's name.

**State of Delaware  
Department of Transportation**

**Notes to Financial Statements (Continued)**

**See Independent Auditors' Report**

**Note C - Cash and Investments (Continued)**

***Interest Rate Risk***

Interest rate risk is the risk that changes in interest rates of debt investments will adversely affect the value of an investment. The Policy provides that maximum maturity for investments in Authority Accounts, at the time of purchase, shall not exceed ten years, except when it is prudent to match a specific investment instrument with a known specific future liability, in which case the maturity limitation shall match the maturity of the corresponding liability.

The following tables present a listing of directly held investments and related maturities.

June 30, 2007

<u>Investment Type</u>	<u>Fair Value</u>	<u>Investment Maturities (in years)</u>		
		<u>Less than 1</u>	<u>1 - 5</u>	<u>6 - 10</u>
U.S. Government Securities	\$ 15,900,311	\$ 7,832,298	\$ 8,068,013	\$ -
U.S. Government Agency Securities	155,547,829	117,117,518	38,430,311	-
Commercial Paper	<u>139,448,084</u>	<u>139,448,084</u>	<u>-</u>	<u>-</u>
	<u>\$310,896,224</u>	<u>\$264,397,900</u>	<u>\$46,498,324</u>	<u>\$ -</u>

June 30, 2006

<u>Investment Type</u>	<u>Fair Value</u>	<u>Investment Maturities (in years)</u>		
		<u>Less than 1</u>	<u>1 - 5</u>	<u>6 - 10</u>
U.S. Government Securities	\$ 5,835,150	\$ 1,279,266	\$ 4,555,884	\$ -
U.S. Government Agency Securities	146,110,004	105,504,598	40,605,406	-
Commercial Paper	<u>58,529,693</u>	<u>58,529,693</u>	<u>-</u>	<u>-</u>
	<u>\$210,474,847</u>	<u>\$165,313,557</u>	<u>\$45,161,290</u>	<u>\$ -</u>

**State of Delaware  
Department of Transportation**

**Notes to Financial Statements (Continued)**

**See Independent Auditors' Report**

**Note C - Cash and Investments (Continued)**

***Credit Risk***

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The Department follows the Policy and the Trust Fund Agreement by investing only in authorized securities. The Department's general investment policy for credit risk is to apply the prudent-person rule. Investments are made as a prudent person would be expected to act, with discretion and intelligence, to seek reasonable income, preserve capital and, in general, avoid speculative investments.

In addition, the Trust Fund Agreement limits investments in Commercial Paper to those with a Moody's rating of P-1 or a Standard & Poor's rating of A-1 for short-term investments. The Department had investments in Commercial Paper of \$139,448,084 and \$58,529,693 at June 30, 2007 and 2006, respectively. All Commercial Paper held was short-term and rated in accordance with the Trust Fund Agreement. The investments in U.S. Government Agency Securities all carried the highest rating by Moody's and Standard & Poor's. All remaining investments were in U.S. Government Securities, which carry no credit risk.

***Investments in Excess of 5%***

The following issuers have investments at fair value in excess of 5% of the investment portfolio at June 30, 2007:

Federal Home Loan Mortgage Corporation	\$57,069,449	18%
Federal National Mortgage Association	98,478,380	32%
UBS Finance Delaware Incorporated	21,381,694	7%
Intesa Funding LLC	18,125,670	6%

***Investment Commitments***

The Department has made no investment commitments as of June 30, 2007.

**State of Delaware  
Department of Transportation**

**Notes to Financial Statements (Continued)**

**See Independent Auditors' Report**

**Note D - Accounts and Loans Receivable**

Accounts and loans receivable at June 30, 2007 and 2006 are detailed as follows:

	<u>2007</u>	<u>2006</u>
Receivables		
Interest	\$ 2,179,530	\$ 1,992,603
Trade	11,797,726	13,360,708
Federal grant	10,022,824	9,768,035
Loans	<u>24,661,048</u>	<u>35,224,684</u>
 Total receivables	 48,661,128	 60,346,030
 Allowance for doubtful accounts	 <u>-</u>	 <u>-</u>
 Total receivables - net of allowance	 <u>\$48,661,128</u>	 <u>\$60,346,030</u>
 Amounts not scheduled for collection during the subsequent year	 <u>\$23,543,048</u>	 <u>\$34,769,665</u>

During fiscal year 2002, the Trust Fund loaned \$27,500,000 to Diamond State Port Corporation. The funds were loaned at an interest rate of 4.6%. Originally, the loan was to be repaid in 40 semi-annual payments of \$1,058,920 with the final payment to be made in January 2023. The loan was subsequently restructured effective July 1, 2004. Unpaid interest through January 1, 2005, in the amount of \$1,911,372, was capitalized into the loan balance and the payments were deferred until July 1, 2005. Effective July 1, 2005, the loan was again restructured. Additional unpaid interest through January 1, 2006, in the amount of \$1,386,641, was capitalized into the loan balance and the payments were deferred until July 1, 2006. Effective July 1, 2006, the loan was again restructured. Additional unpaid interest through January 1, 2007, in the amount of \$1,181,392, was capitalized into the loan balance. The State paid \$10,000,000 towards the principal of the loan on behalf of the Diamond State Port Corporation in August 2006. The remaining principal amount due was \$21,259,658. The interest rate on the restructured loan remains at 4.6%. The loan is currently to be repaid in four semi-annual payments of \$500,000, commencing on March 31, 2007, and 40 semi-annual payments of \$808,798, commencing on March 31, 2009, with the final payment to be made on May 31, 2028.

**State of Delaware  
Department of Transportation**

**Notes to Financial Statements (Continued)**

**See Independent Auditors' Report**

**Note D - Accounts and Loans Receivable (Continued)**

At June 30, 2007 and 2006, the outstanding loan balance was \$20,922,649 and \$30,333,593, respectively.

The Diamond State Port Corporation will only be able to repay this loan with continued annual support from the general assembly. While funds have not been committed, it is the expectation of management that the required support will be appropriated each year.

During fiscal year 2005, the Department reached a settlement agreement with CSX Transportation, Inc., (CSX) in which CSX agreed to fund a portion of the costs of reconstruction of certain railway bridges in the City of Wilmington, Delaware. The settlement was for \$6,000,000, and has been recorded as a loan receivable and deferred revenue in the accompanying balance sheets. Payments are received in 10 semi-annual installments of \$666,387, including interest at 3.91%. Revenue is recorded as actual expenses are incurred. Revenue recorded for the years ended June 30, 2007 and 2006 was \$726,330 and \$959,774, respectively. The Department has requested federal assistance with these projects. To the extent such federal assistance is received, the loan balance may be reduced in future periods by 75% of the total federal assistance received, in accordance with the settlement agreement. The loan balance at June 30, 2007 and 2006 was \$3,738,399 and \$4,891,091, respectively.

**State of Delaware  
Department of Transportation**

**Notes to Financial Statements (Continued)**

**See Independent Auditors' Report**

**Note E - Capital Assets**

Capital asset activity for the year ended June 30, 2007 was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Capital assets not being depreciated				
Land	\$ 211,272,425	\$ 9,888,858	\$(14,750,476)	\$ 206,410,807
Infrastructure	3,255,998,018	27,785,041	-	3,283,783,059
Construction in progress	<u>15,311,430</u>	<u>5,928,617</u>	<u>-</u>	<u>21,240,047</u>
Total capital assets not being depreciated	3,482,581,873	43,602,516	(14,750,476)	3,511,433,913
Capital assets being depreciated				
Buildings and improvements	54,857,775	192,829	-	55,050,604
Fixtures and equipment	<u>161,943,809</u>	<u>21,804,620</u>	<u>(4,282,104)</u>	<u>179,466,325</u>
Total capital assets being depreciated	216,801,584	21,997,449	(4,282,104)	234,516,929
Less: accumulated depreciation for				
Buildings and improvements	17,956,204	1,635,606	-	19,591,810
Fixtures and equipment	<u>86,397,455</u>	<u>12,739,159</u>	<u>(3,864,390)</u>	<u>95,272,224</u>
Total accumulated depreciation	<u>104,353,659</u>	<u>14,374,765</u>	<u>(3,864,390)</u>	<u>114,864,034</u>
Total capital assets being depreciated, net	<u>112,447,925</u>	<u>7,622,684</u>	<u>(417,714)</u>	<u>119,652,895</u>
Capital assets, net	<u>\$3,595,029,798</u>	<u>\$51,225,200</u>	<u>\$(15,168,190)</u>	<u>\$3,631,086,808</u>

**State of Delaware  
Department of Transportation**

**Notes to Financial Statements (Continued)**

**See Independent Auditors' Report**

**Note E - Capital Assets (Continued)**

Capital asset activity for the year ended June 30, 2006 was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Capital assets not being depreciated				
Land	\$ 164,703,227	\$ 46,569,198	\$ -	\$ 211,272,425
Infrastructure	3,201,817,266	54,180,752	-	3,255,998,018
Construction in progress	<u>392,389</u>	<u>14,919,041</u>	<u>-</u>	<u>15,311,430</u>
Total capital assets not being depreciated	3,366,912,882	115,668,991	-	3,482,581,873
Capital assets being depreciated				
Buildings and improvements	60,820,546	466,870	(6,429,641)	54,857,775
Fixtures and equipment	<u>158,778,619</u>	<u>7,952,643</u>	<u>(4,787,453)</u>	<u>161,943,809</u>
Total capital assets being depreciated	219,599,165	8,419,513	(11,217,094)	216,801,584
Less: accumulated depreciation for				
Buildings and improvements	18,017,641	1,825,953	(1,887,390)	17,956,204
Fixtures and equipment	<u>76,345,011</u>	<u>14,231,808</u>	<u>(4,179,364)</u>	<u>86,397,455</u>
Total accumulated depreciation	<u>94,362,652</u>	<u>16,057,761</u>	<u>(6,066,754)</u>	<u>104,353,659</u>
Total capital assets being depreciated, net	<u>125,236,513</u>	<u>(7,638,248)</u>	<u>(5,150,340)</u>	<u>112,447,925</u>
Capital assets, net	<u>\$3,492,149,395</u>	<u>\$108,030,743</u>	<u>\$ (5,150,340)</u>	<u>\$3,595,029,798</u>

Depreciation expense for fiscal years 2007 and 2006 was \$14,374,765 and \$15,359,458, respectively.

**State of Delaware  
Department of Transportation**

**Notes to Financial Statements (Continued)**

**See Independent Auditors' Report**

**Note F - Changes in Long-Term Liabilities**

Long-term liability activity for the year ended June 30, 2007 was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Bonds payable					
Revenue bonds	\$ 953,265,000	\$215,335,000	\$(149,785,000)	\$1,018,815,000	\$67,640,000
General obligation bonds	4,248,071	-	(865,109)	3,382,962	599,955
Bond issue premium, net of accumulated amortization	30,894,855	6,179,669	(7,720,617)	29,353,907	6,623,371
Claims and judgments	16,689,789	2,727,921	(14,582,710)	4,835,000	2,457,537
Compensated absences	<u>14,474,818</u>	<u>-</u>	<u>(851,430)</u>	<u>13,623,388</u>	<u>4,013,768</u>
Long-term liabilities	<u>\$1,019,572,533</u>	<u>\$224,242,590</u>	<u>\$(173,804,866)</u>	<u>\$1,070,010,257</u>	<u>\$81,334,631</u>

Long-term liability activity for the year ended June 30, 2006 was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Bonds payable					
Revenue bonds	\$861,710,000	\$150,000,000	\$(58,445,000)	\$ 953,265,000	\$61,370,000
General obligation bonds	4,830,764	-	(582,693)	4,248,071	812,259
Bond issue premium, net of accumulated amortization	29,782,525	8,417,842	(7,305,512)	30,894,855	6,814,934
Claims and judgments	15,983,663	2,967,973	(2,261,847)	16,689,789	2,355,513
Compensated absences	<u>12,294,008</u>	<u>2,180,810</u>	<u>-</u>	<u>14,474,818</u>	<u>3,802,292</u>
Long-term liabilities	<u>\$924,600,960</u>	<u>\$163,566,625</u>	<u>\$(68,595,052)</u>	<u>\$1,019,572,533</u>	<u>\$75,154,998</u>

**State of Delaware  
Department of Transportation**

**Notes to Financial Statements (Continued)**

**See Independent Auditors' Report**

**Note G - General Obligation Bonds Outstanding**

General obligation bonds outstanding at June 30, 2007 and 2006 are detailed as follows:

<u>Sale #</u>	<u>Description and Interest Rates</u>	<u>Maturity Date (Fiscal Year)</u>	<u>Balance Outstanding</u>	
			<u>June 30, 2007</u>	<u>June 30, 2006</u>
194	GO 2005B, 5.00%	2024	\$ 911,910	\$1,018,125
191	GO + Refunding 2004A, 3.00-6.00%	2024	105,115	120,131
188	GO Refunding 2003B, 4.00-5.00%	2012	2,071,687	2,609,865
185	GO + Refunding 2002A, 4.00-5.25%	2023	264,250	369,950
177	GO 1997A, 5.00%	2007	<u>30,000</u>	<u>130,000</u>
	Totals		3,382,962	4,248,071
	Less: current portion		<u>599,955</u>	<u>812,259</u>
	Long-term portion		<u>\$2,783,007</u>	<u>\$3,435,812</u>

The general obligation bonds are direct obligations of the State of Delaware and are secured by the full faith and credit of the State. Only that portion of the bonds attributable to the Department has been reflected in these financial statements.

The annual requirement to amortize all general obligation bonds payable as of June 30, 2007 was as follows:

<u>Year Ending June 30,</u>	<u>Principal Maturity</u>	<u>Interest Maturity</u>	<u>Total</u>
2008	\$ 599,955	\$152,630	\$ 752,585
2009	676,105	120,200	796,305
2010	655,588	86,522	742,110
2011	663,331	56,194	719,525
2012	346,503	30,923	377,426
2013 - 2016	<u>441,480</u>	<u>31,864</u>	<u>473,344</u>
	<u>\$3,382,962</u>	<u>\$478,333</u>	<u>\$3,861,295</u>

**State of Delaware  
Department of Transportation**

**Notes to Financial Statements (Continued)**

**See Independent Auditors' Report**

**Note H - Revenue Bonds Outstanding**

Revenue bonds outstanding at June 30, 2007 and 2006 are detailed as follows:

Date of Issue/Maturity	Amount of Original Issue	Description and Interest Rates	Balance Outstanding	
			June 30, 2007	June 30, 2006
SENIOR BONDS				
1997/2017	\$120,640,000	Transportation System Senior Revenue Bonds, 1997 Series, 5.00-6.00%	\$ 7,550,000	\$ 49,930,000
1998/2016	60,560,000	Transportation System Senior Revenue Bonds, 1998 Series, 4.50-5.50%	51,985,000	52,190,000
2000/2020	83,995,000	Transportation System Senior Revenue Bonds, 2000 Series, 5.50%	14,520,000	17,720,000
2001/2021	85,000,000	Transportation System Senior Revenue Bonds, 2001 Series, 4.50-5.00%	34,910,000	50,795,000
2002/2008	43,015,000	Transportation System Senior Revenue Bonds, 2002 Series, 5.00%	11,305,000	27,765,000
2002/2022	173,680,000	Transportation System Senior Revenue Bonds, 2002 Series B, 4.00-5.25%	112,910,000	146,615,000
2003/2023	277,210,000	Transportation System Senior Revenue Bonds, 2003 Series, 4.50-5.00%	225,055,000	247,685,000
2004/2024	167,550,000	Transportation System Senior Revenue Bonds, 2004 Series, 3.00-5.00%	160,705,000	164,200,000
2005/2025	150,000,000	Transportation System Senior Revenue Bonds, 2005 Series, 4.00-5.00%	149,000,000	150,000,000
2006/2026	127,445,000	Transportation System Senior Revenue Bonds, 2006 Series, 3.50-5.00%	127,445,000	-
2007/2021	87,890,000	Transportation System Senior Revenue Bonds, 2007A Series, 4.00-5.00%	87,890,000	-
JUNIOR BONDS				
2002/2009	48,120,000	Transportation System Junior Revenue Bonds, 2002 Series, 4.625-5.00%	<u>35,540,000</u>	<u>46,365,000</u>
		Totals	1,018,815,000	953,265,000
		Less: current portion	<u>67,640,000</u>	<u>61,370,000</u>
		Long-term portion	<u>\$ 951,175,000</u>	<u>\$891,895,000</u>

**State of Delaware  
Department of Transportation**

**Notes to Financial Statements (Continued)**

**See Independent Auditors' Report**

**Note H - Revenue Bonds Outstanding (Continued)**

The Transportation System Revenue Bonds have fixed interest rates and are limited obligations of the Authority secured only by the pledged revenues of the Trust Fund. Summary financial information for the Trust Fund was as follows at June 30:

	<u>2007</u>	<u>2006</u>
<b><i>Condensed Balance Sheets</i></b>		
Assets		
Current assets	\$ 278,452,273	\$ 172,744,932
Capital assets	1,015,468,412	1,010,161,302
Other assets	<u>70,041,372</u>	<u>79,930,955</u>
Total assets	<u>1,363,962,057</u>	<u>1,262,837,189</u>
Liabilities		
Current liabilities	127,267,319	114,928,625
Noncurrent liabilities	<u>977,000,883</u>	<u>930,976,290</u>
Total liabilities	<u>1,104,268,202</u>	<u>1,045,904,915</u>
Net Assets		
Invested in capital assets, Net of related debt	37,595,366	32,033,115
Unrestricted	69,270,051	44,063,523
Restricted	<u>152,828,438</u>	<u>140,835,636</u>
Total net assets	<u>\$ 259,693,855</u>	<u>\$ 216,932,274</u>
<b><i>Condensed Statements of Revenues, Expenses, and Change in Net Assets</i></b>		
Operating revenues (pledged against bonds)	\$ 332,179,720	\$ 326,826,259
Other operating revenues	37,407,011	38,350,926
Depreciation expense	(190,452)	(192,045)
Other operating expenses	<u>(384,067,953)</u>	<u>(426,246,309)</u>
Operating loss	<u>(14,671,674)</u>	<u>(61,261,169)</u>
Nonoperating revenues (expenses)		
Investment income (pledged against bonds)	14,774,453	10,523,310
Other investment income (loss)	963,619	(730,388)
Interest expense	(43,207,653)	(37,346,668)
Transfer from DelDOT	5,494,308	-
Transfer from State General Fund	<u>79,408,528</u>	<u>88,237,590</u>
Change in net assets	42,761,581	(577,325)
Beginning net assets	<u>216,932,274</u>	<u>217,509,599</u>
Ending net assets	<u>\$ 259,693,855</u>	<u>\$ 216,932,274</u>

**State of Delaware  
Department of Transportation**

**Notes to Financial Statements (Continued)**

**See Independent Auditors' Report**

**Note H - Revenue Bonds Outstanding (Continued)**

	<u>2007</u>	<u>2006</u>
<b><i>Condensed Statements of Cash Flows</i></b>		
Net cash provided by (used in)		
Operating activities	\$(19,812,107)	\$(78,699,189)
Noncapital financing activities	84,902,836	88,237,590
Capital and related financing activities	14,246,814	(174,401)
Investing activities	<u>(74,306,596)</u>	<u>(9,425,811)</u>
Net increase (decrease)	5,030,947	(61,811)
Beginning cash and cash equivalents	<u>2,441,059</u>	<u>2,502,870</u>
Ending cash and cash equivalents	<u>\$ 7,472,006</u>	<u>\$ 2,441,059</u>

The revenue bonds do not constitute a debt of the State or of any political subdivision thereof, or a pledge of the general taxing power or the faith and credit of the State of Delaware or of any such political subdivision.

The Authority had a total of \$62,938,525 and \$75,219,525 in authorized but unissued revenue bonds at June 30, 2007 and 2006, respectively, to fund a portion of the Department of Transportation Capital Improvement Program.

The annual requirement to amortize all revenue bonds payable as of June 30, 2007 was as follows:

<u>Year Ending June 30,</u>	<u>Principal Maturity</u>	<u>Interest Maturity</u>	<u>Total</u>
2008	\$ 67,640,000	\$ 46,209,546	\$ 113,849,546
2009	73,510,000	38,640,632	112,150,632
2010	75,660,000	35,099,351	110,759,351
2011	64,220,000	31,942,601	96,162,601
2012	64,775,000	29,036,230	93,811,230
2013 - 2017	302,875,000	102,664,063	405,539,063
2018 - 2022	241,170,000	44,591,568	285,761,568
2023 - 2027	<u>128,965,000</u>	<u>8,287,401</u>	<u>137,252,401</u>
Totals	<u>\$1,018,815,000</u>	<u>\$336,471,392</u>	<u>\$1,355,286,392</u>

**State of Delaware  
Department of Transportation**

**Notes to Financial Statements (Continued)**

**See Independent Auditors' Report**

**Note H - Revenue Bonds Outstanding (Continued)**

On April 11, 2007, the Trust Fund issued \$87,890,000 of Transportation System Senior Revenue Bonds, 2007A Series to provide for an advance refunding of the following Transportation System Senior Revenue Bonds:

1997 Series	\$38,925,000
2001 Series	12,715,000
2002B Series	26,870,000
2003 Series	<u>9,905,000</u>
	<u>\$88,415,000</u>

The refunding was undertaken to reduce the total future debt service payments. The transaction resulted in an economic gain of \$2,803,107 and a reduction of \$3,225,552 in future debt service payments.

**Note I - Debt Defeasance**

The Authority has defeased various bond issues by creating separate irrevocable trust funds. New debt had been issued and the proceeds had been used to purchase U.S. Government Securities that were placed in the trust funds. The investments and fixed earnings from the investments are sufficient to fully service the defeased debt until the debt is called or matures. For financial reporting purposes, the debt is considered defeased and, therefore, not reported as a liability. As of June 30, 2007 and 2006, the amount of defeased debt outstanding amounted to \$229,220,000 and \$146,485,000, respectively.

**State of Delaware  
Department of Transportation**

**Notes to Financial Statements (Continued)**

**See Independent Auditors' Report**

**Note J - Designated Net Assets**

For operations, unrestricted net assets designated by management were as follows for the fiscal years ended June 30:

	<u>2007</u>	<u>2006</u>
<b>DTC Transit Funds</b>		
Designated as working capital for operations are:	\$ 9,656,166	\$ 7,407,918
Designated as reserve for self insurance are:	4,342,908	3,943,277
Unexpended appropriations authorized by the State budget bills were carried forward as a designated net asset. For the years ended June 30, 2007 and 2006, the DTC Transit Fund expended authorized appropriations amounting to \$64,949,492 and \$60,082,914, respectively. The remaining totals of budgeted appropriations to be paid in future periods are:	5,760,408	5,758,370
<b>Other Transportation Funds</b>		
Authorized appropriations expended to fund State highway administration, planning, operating costs, and Expressways Operations/Toll Administration operations for the years ended June 30, 2007 and 2006 were \$157,947,082 and \$134,776,608, respectively. Unexpended appropriations have been designated for approved expenses and are classified as designated net assets in the amounts of:	<u>3,564,120</u>	<u>2,194,952</u>
Total designated net assets	<u>\$23,323,602</u>	<u>\$19,304,517</u>

**Note K - Restricted Net Assets**

Restricted net assets were as follows at June 30,:

	<u>2007</u>	<u>2006</u>
<b>Pension Funds</b>		
Amounts held in DTC pension fund	\$ 976,275	\$ 688,884
<b>Debt Service Funds</b>		
Amounts generated from operations required by the Trust Agreement to be provided to meet current principal and interest payments	91,270,440	85,195,257

**State of Delaware  
Department of Transportation**

**Notes to Financial Statements (Continued)**

**See Independent Auditors' Report**

**Note K - Restricted Net Assets (Continued)**

	<u>2007</u>	<u>2006</u>
<b>Debt Reserve Funds</b>		
Amounts generated from operations required by the Trust Agreement to be provided as a reserve for future principal and interest payments	\$ 52,519,649	\$ 47,092,470
<b>Delaware State Infrastructure Bank</b>		
Amounts required by cooperative agreement with the Federal Highway Administration to be held to provide loans for transportation projects	9,038,349	8,547,909
<b>Highway Beautification Funds</b>		
Amounts held in trust to be used for highway beautification	<u>29,433</u>	<u>22,533</u>
Total restricted net assets	<u>\$153,834,146</u>	<u>\$141,547,053</u>

**Note L - DTC Union Contracts**

Operators and maintenance personnel of the North District Fixed Route system are represented by the Amalgamated Transit Union AFL-CIO, Local 842. The term of the current Collective Bargaining Agreement covers the period starting March 1, 2002 through November 30, 2007.

Paratransit operators statewide and South District Fixed Route operators are also represented by the Amalgamated Transit Union AFL-CIO, Local 842, under a separate Collective Bargaining Agreement. The term of the current Collective Bargaining Agreement covers the period July 1, 2003 through June 30, 2008.

Certain administrative, operations, and maintenance personnel are represented by the Office and Professional Employee International Union, Local 32, AFL-CIO. The term of the Collective Bargaining Agreement is from January 1, 2002 through December 31, 2006. As of June 30, 2007, DTC is still negotiating terms for a new contract with the Office and Professional Employee International Union, Local 32, AFL-CIO.

**State of Delaware  
Department of Transportation**

**Notes to Financial Statements (Continued)**

**See Independent Auditors' Report**

**Note M - Retirement Plan**

Essentially all full-time Department employees are covered under the State of Delaware Defined Benefit Pension Plan (the Plan), with the exception of DTC employees, who are covered under separate plans (see Note N). The Plan is contributory, and employees contribute 3% of the portion of their monthly compensation that exceeds \$6,000 per calendar year. Contributions by the Department are based on percentages of total employee compensation as specified by the Office of Pension and Investments, who administers the Plan.

In addition to the Plan contribution, the Department makes contributions to finance the costs of Post Retirement Increases (PRI) and Retiree Health Insurance (RHI). PRI are granted by the General Assembly to members retired under the State Employees' Plan. The funding mechanism allows the State to appropriate actuarially determined employer contributions to a separate PRI fund administered by the Pension Board. When the Legislature grants an ad hoc increase, the actuarial impact of the increase is funded over five years.

The following trend information for the current and preceding two years was as follows as of June 30:

<u>Fiscal Year</u>	<u>Annual Retirement Expense</u>	<u>Pension Plan</u>	<u>Employer Contribution Rate</u>		
			<u>PRI</u>	<u>RHI</u>	<u>Total</u>
2007	\$11,094,079	6.69%	2.62%	6.64%	15.95%
2006	9,893,490	6.12%	2.60%	6.30%	15.02%
2005	8,230,409	4.91%	2.43%	5.91%	13.25%

The State of Delaware does not maintain the Plan information by agency, and therefore, the Department's portion of the Plan's net assets available for benefits, percentage of annual pension cost contributed, and the actuarial present value of vested and nonvested accumulated plan benefits is not readily determinable.

Detailed information concerning the State of Delaware "State Employees Pension Plan" is presented in its publicly available annual basic financial statements, which can be obtained by writing the State Board of Pension Trustees and Office of Pensions, McArdle Building, Suite 1, 860 Silver Lake Blvd., Dover, DE 19904-2402.

**State of Delaware  
Department of Transportation**

**Notes to Financial Statements (Continued)**

**See Independent Auditors' Report**

**Note N - Defined Benefit Pension Plans**

*Plan Descriptions*

DTC contributes to two single-employer defined benefit pension plans: the Delaware Transit Corporation Pension Plan, with participation limited to full-time, nonunion salaried employees; and the Contributory Pension Plan, for all full-time members of Local #842 Amalgamated Transit Union and Local #32 Office and Professional Employee International Union. Each plan provides retirement, disability, and death benefits to plan members and beneficiaries. Each plan issues a publicly available financial report that includes financial statements and required supplementary information. Those reports may be obtained by writing or calling DTC at its Dover office.

*Funding Policy and Annual Pension Cost*

The trustees of each plan establish and may amend the contribution requirements of plan members and DTC. The most recent information available for DTC's annual pension cost and related information for each plan is as follows:

	<u>DTC Pension Plan</u>	<u>Contributory Pension Plan</u>
Contribution rates:		
Employer	*	5.00%
Participants	N/A	5.00%
Annual pension cost	\$707,897	\$547,889
Contributions made	\$707,897	\$835,280
Actuarial valuation date	7/01/06	1/01/07
Actuarial cost method	Frozen Initial Liability	Aggregate **
Remaining amortization period	19	16
Asset valuation method	Market	***
Actuarial assumptions:		
Investment rate of return	7.50%	7.00%
Projected salary increases	4.50%	4.00%

Note: \* = Actuarially Determined and N/A = Not Applicable  
 \*\* = This method does not identify and separately amortize unfunded actuarial liabilities.  
 \*\*\* = Book value plus 20% of the difference between book and market value, but not less than 80% or greater than 90% of market value.

**State of Delaware  
Department of Transportation**

**Notes to Financial Statements (Continued)**

**See Independent Auditors' Report**

**Note N - Defined Benefit Pension Plans (Continued)**

*Funding Policy and Annual Pension Cost (Continued)*

**Three-Year Trend Information**

	<u>Plan Year Ended</u>	<u>Contribution Made</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Asset</u>
DTC Pension Plan	06/30/2005	\$610,666	\$610,666	100.00%	\$ -
	06/30/2006	626,894	626,894	100.00%	-
	06/30/2007	707,897	707,897	100.00%	-
Contributory Plan	12/31/2004	916,604	601,299	152.44%	482,356
	12/31/2005	748,661	542,133	138.10%	688,884
	12/31/2006	835,280	547,899	152.45%	976,275

**Schedules of Funding Progress**

*DTC Pension Plan*

<u>Actual Valuation Date</u>	<u>Actuarial Value of Assets (a)</u>	<u>Actuarial Accrued Liability (AAL) (b)</u>	<u>Excess (Deficit) of Assets Over AAL (a - b)</u>	<u>Funded Ratio (a/b)</u>	<u>Covered Payroll (c)</u>	<u>Excess (Deficit) as a Percentage of Covered Payroll ((a - b)/c)</u>
07/01/2004	\$6,450,349	\$6,874,823	\$(424,474)	93.83%	\$7,350,742	(5.77)%
07/01/2005	7,539,479	7,932,143	(392,664)	95.05%	8,019,950	(4.89)%
07/01/2006	8,709,127	9,076,068	(366,941)	95.96%	8,897,785	(4.12)%

**Note O - Commitments and Contingencies**

*Construction Commitments*

The Department had contractual commitments of \$258,835,769 and \$208,972,916 for construction of various highway projects at June 30, 2007 and 2006, respectively. Current and future appropriations will fund these commitments as work is performed.

*Litigation*

The Department is involved in various legal actions arising in the normal course of business. In the opinion of management, such matters will not have a material effect upon the financial position of the Department.

**State of Delaware  
Department of Transportation**

**Notes to Financial Statements (Continued)**

**See Independent Auditors' Report**

**Note P - Claims and Judgments**

*Electronic Toll Collection*

During fiscal year 1996, Expressways Operations/Toll Administration entered into a regional electronic toll collection system consortium (the Consortium). The Consortium includes an agreement among member jurisdictions to share in the potential revenues and costs associated with the construction, financing, and operations of an electronic toll collection customer service center (CSC). The CSC collected tolls and violation fees from motorists in each member jurisdiction and remitted to each jurisdiction their share of tolls collected based upon actual road usage. The Consortium also leased fiber optic transmission lines to the public, which was to generate rental income to the CSC. The rental income and violation fees were expected to exceed the costs associated with operating the CSC.

In order to fund operations, the Consortium issued \$150,000,000 in fixed rate and \$150,000,000 in variable rate bonds to be repaid in 2008. In the event that the CSC generated costs in excess of revenues during its planned ten-year operating term, each member jurisdiction was obligated to finance their share of this operating deficit under the terms of a True-Up Agreement that each member jurisdiction has signed. The Department is obligated for 4% or \$12,000,000. Each year the Consortium performed a True-Up Study that showed with each year a lessened ability of the CSC to pay the debt.

On March 25, 2003, the Department withdrew from the Consortium that was governing the E-ZPass operation jointly with three agencies from other states. As of that date, the Department began operating its E-ZPass system independent of the Consortium. Per the terms of the settlement agreement, the Trust Fund received approximately \$7.6 million during fiscal year 2003 to cover various transition costs. The New Jersey Turnpike Authority, acting as lead agency for the Consortium, also completed the remaining work on Delaware's portion of the fiber optic network at no cost to the Department. The value of this work was an additional \$1 million. These amounts were initially recorded as deferred revenue and vendor retainage payable and were recorded as income and expenses when incurred. For the years ended June 30, 2007 and 2006, amounts recognized in income related to E-ZPass transition costs were \$-0- and \$366,419, respectively. There were no deferred revenues related to E-ZPass transition costs remaining at June 30, 2007 and 2006.

**State of Delaware  
Department of Transportation**

**Notes to Financial Statements (Continued)**

**See Independent Auditors' Report**

**Note P - Claims and Judgments (Continued)**

*Electronic Toll Collection (Continued)*

As part of the separation agreement, the Department agreed to pay principal and interest on the bonds for their share of the debt of \$12,000,000, which was paid in full during the year ended June 30, 2007. The discounted amount of this liability at June 30, 2006 was \$11,230,769 and appears as claims and judgments in the accompanying balance sheets.

**Note Q - Risk Management**

The Department is exposed to various risks of loss related to workers' compensation, healthcare, automobile, and casualty claims. Except as noted below, the Department is a participant in the State of Delaware's Risk Management Program, which covers all claim settlements and judgments out of its General Fund. The Department pays premiums to the General Fund for this coverage.

*Workers' Compensation Insurance*

DTC maintains coverage for workers' compensation benefits. DTC manages the coverage through both the retention of risk and the purchase of commercial insurance. The payment of workers' compensation claims is processed through a third-party administrator.

For years prior to 2003, DTC established workers' compensation loss contingency reserves based upon insurance carriers' actuarial reviews. Benefit claims in an amount of \$100,000 or less per person, per coverage year are paid from the workers' compensation loss contingency reserve. Once a specific claim exceeds \$100,000 or total claims for a given policy period exceed the maximum loss amount, the insurance policy covers the excess.

For fiscal year 2003, DTC changed its coverage to a first dollar program. Also, all claims were subject to a \$5,000 deductible for the medical portion of a claim. All other expenses related to a claim were covered by the insurance carrier.

**State of Delaware  
Department of Transportation**

**Notes to Financial Statements (Continued)**

**See Independent Auditors' Report**

**Note Q - Risk Management (Continued)**

*Workers' Compensation Insurance (Continued)*

Subsequent to fiscal year 2003, DTC changed its coverage and is insured through the State of Delaware. Under the State program, DTC pays a premium calculated as \$1.60 per \$100 of payroll for the years ended June 30, 2007 and 2006. DTC is not responsible for any costs other than the premium paid, thus no loss contingency reserves were established.

*Auto Insurance*

DTC maintains auto insurance coverage through both the retention of risk and the purchase of commercial insurance. Auto loss reserves that are based upon actuarial reviews were established by DTC.

For years prior to 2003, DTC would establish auto loss reserves based upon insurance carriers' actuarial reviews. Individual claims in an amount of \$100,000 or less per incident, per coverage year were paid from the auto loss reserve funds. Once a specific claim exceeds \$100,000 or total claims for a given policy period exceed the maximum loss amount established by the insurance carrier, the insurance policy covers the excess.

For 2003 and subsequent years, DTC has established self-insured retention thresholds up to certain dollar amounts and purchased commercial insurance (wrap-around) policies for coverage amounts in excess of the self-insured retention thresholds. DTC established initial loss reserve insurance liabilities for each of the years based upon actuarially determined valuations assuming DTC's maximum liability exposure to be \$300,000 per occurrence (this reflects the sovereign immunity cap pursuant to Title 2 of the Delaware Code, Subsection 1329).

For individual claims in excess of the sovereign immunity cap, DTC retained a maximum amount of loss based upon their self-insured retention program and the balance would be covered by commercial insurance.

**State of Delaware  
Department of Transportation**

**Notes to Financial Statements (Continued)**

**See Independent Auditors' Report**

**Note Q - Risk Management (Continued)**

*Auto Insurance (Continued)*

	Initial Loss Reserve Insurance Liability <u>Established</u>	Maximum Amount of Loss Under Self-Insured Retention Program <u>(Per Occurrence)</u>	Excess Commercial Coverage <u>(Aggregate)</u>
2003	\$2,561,000	\$1,300,000	\$10,000,000
2004	2,666,763	1,300,000	6,000,000
2005	2,763,367	2,300,000	5,000,000
2006	2,858,258	2,300,000	5,000,000
2007 (07/01/06 – 01/14/07)	2,607,350	2,300,000	5,000,000
2007 (01/15/07 – 06/30/07)	*	900,000	100,000

\* Initial loss reserve established at July 1, 2006 in the amount of \$2,607,350 for entire fiscal year.

The components of the remaining insurance loss reserve were as follows at June 30:

	<u>2007</u>	<u>2006</u>
Workers' compensation loss reserve remaining for fiscal year 2003	\$ -	\$ 87,885
Workers' compensation loss reserve remaining for fiscal year 2002	-	103,509
Workers' compensation loss reserve remaining for fiscal year 2001	-	11,216
Workers' compensation loss reserve remaining for fiscal year 2000	-	23,400
Auto loss reserve remaining for fiscal year 2007	2,304,000	-
Auto loss reserve remaining for fiscal year 2006	1,381,000	2,255,303
Auto loss reserve remaining for fiscal year 2005	535,000	1,327,301
Auto loss reserve remaining for fiscal year 2004	475,000	933,668
Auto loss reserve remaining for fiscal year 2003	80,000	598,300
Auto loss reserve remaining for fiscal year 2002	20,000	98,438

**State of Delaware  
Department of Transportation**

**Notes to Financial Statements (Continued)**

**See Independent Auditors' Report**

**Note Q - Risk Management (Continued)**

*Auto Insurance (Continued)*

	<u>2007</u>	<u>2006</u>
Auto loss reserve remaining for fiscal year 2000	\$ 32,000	\$ 20,000
Auto loss reserve remaining for fiscal year 1999	<u>8,000</u>	<u>-</u>
	<u>\$4,835,000</u>	<u>\$5,459,020</u>

Changes in the balances of total claim liabilities during fiscal years 2007 and 2006 were as follows:

<u>Fiscal Year</u>	<u>Beginning Balance July 1</u>	<u>Current Year Estimated Claims and Changes in Estimates</u>	<u>Actual Claim Payments</u>	<u>Ending Balance June 30</u>
2007	\$5,459,020	\$2,204,799	\$(2,828,819)	\$4,835,000
2006	\$4,658,434	\$3,156,099	\$(2,355,513)	\$5,459,020

**Note R - Operating Leases**

The Department has several noncancellable operating leases, primarily for operation and maintenance facilities, which expire at various times through June 29, 2020. Those leases require the Department to pay for maintenance and liability insurance costs. Rental expenses were \$1,850,661 and \$1,864,233 for the years ended June 30, 2007 and 2006, respectively.

Future minimum lease payments under operating leases that have remaining terms in excess of one year as of June 30, 2007 are as follows:

2008	\$ 236,070
2009	156,288
2010	152,082
2011	151,187
2012	117,164
2013 - 2017	483,306
2018 - 2021	<u>5,400</u>
	<u>\$1,301,497</u>

**State of Delaware  
Department of Transportation**

**Notes to Financial Statements (Continued)**

**See Independent Auditors' Report**

**Note R - Operating Leases (Continued)**

DTC has an operating lease agreement for transit vehicle tires, which will expire on May 19, 2009. The lease agreement requires DTC to make monthly payments based on miles driven multiplied by a mileage rate as set forth in the agreement. The mileage rate is based on contract year and estimated annual vehicle miles. For the years ended June 30, 2007 and 2006, DTC incurred expenses related to this lease of \$128,118 and \$132,200, respectively.

During 2006, DTC leased office space for the period January 12, 2006 through June 15, 2006. Rental expense for that period was \$315,974.

**Note S - Contributions From the State General Fund**

The State of Delaware's General Assembly and the State of Delaware's Division of Revenue transferred the following amounts from the State's General Fund to the Department at June 30,:

	<u>2007</u>	<u>2006</u>
Amounts transferred to the Revenue Fund:		
Division of Revenue, Motor Vehicle Dealer/ Lessor License and Document Fees	\$ 2,693,928	\$ 2,541,690
Amounts transferred to the Trust Fund:		
Supplemental appropriation from fiscal year Bond Bill	74,000,000	82,869,600
Amounts transferred to the Department:		
Supplemental appropriation from fiscal year Bond Bill	-	14,000,000
Amounts transferred from the Department:		
Municipal street aid	(5,000,000)	(5,000,000)
Division of Motor Vehicles	<u>2,714,600</u>	<u>2,826,300</u>
	<u>\$74,408,528</u>	<u>\$97,237,590</u>

**Note T - Loss on Disposal of Facility**

During fiscal year 2006, DTC relocated one of its facilities. The relocation resulted in a loss on disposal in the amount of \$4,517,635.

## **Required Supplementary Information**

**State of Delaware  
Department of Transportation**

**Supplementary Information for Governments  
That Use the Modified Approach for Infrastructure Assets**

**See Independent Auditors' Report**

		<u>Structural Rating Numbers &amp; Percentages for Bridges</u>					
		<u>2006</u>		<u>2005</u>		<u>2004</u>	
	<u>BCR Condition Rating</u>	<u>Number</u>	<u>%</u>	<u>Number</u>	<u>%</u>	<u>Number</u>	<u>%</u>
Good	6 - 9	1,112	78.5	1,048	76.3	1,029	75.1
Fair	5	245	17.3	243	17.7	256	18.6
Poor	0 - 4	<u>60</u>	<u>4.2</u>	<u>83</u>	<u>6.0</u>	<u>86</u>	<u>6.3</u>
Totals		<u>1,417</u>	<u>100.0</u>	<u>1,374</u>	<u>100.0</u>	<u>1,371</u>	<u>100.0</u>

		<u>Deck Rating Numbers &amp; Percentages for Bridges</u>					
		<u>2006</u>		<u>2005</u>		<u>2004</u>	
	<u>OPC Condition Rating</u>	<u>Square Feet</u>	<u>%</u>	<u>Square Feet</u>	<u>%</u>	<u>Square Feet</u>	<u>%</u>
Good	6 - 9	6,860,141	94.4	6,808,227	94.0	6,731,463	94.0
Fair	5	383,680	5.3	390,978	5.4	399,554	5.6
Poor	0 - 4	<u>24,111</u>	<u>0.3</u>	<u>42,604</u>	<u>0.6</u>	<u>31,983</u>	<u>0.4</u>
Totals		<u>7,267,932</u>	<u>100.0</u>	<u>7,241,809</u>	<u>100.0</u>	<u>7,163,000</u>	<u>100.0</u>

		<u>Centerline Mile Numbers &amp; Percentages for Roadways</u>					
		<u>2006</u>		<u>2005</u>		<u>2004</u>	
	<u>OPC Condition Rating</u>	<u>Center-line Mile</u>	<u>%</u>	<u>Center-line Mile</u>	<u>%</u>	<u>Center-line Mile</u>	<u>%</u>
Good	3.0 - 5.0	3055	68.6	3,070	69.0	3,296	73.8
Fair	2.5 - 3.0	933	20.9	914	20.5	775	17.4
Poor	Below 2.5	<u>466</u>	<u>10.5</u>	<u>469</u>	<u>10.5</u>	<u>393</u>	<u>8.8</u>
Totals		<u>4,454</u>	<u>100.0</u>	<u>4,453</u>	<u>100.0</u>	<u>4,464</u>	<u>100.0</u>

Comparison of Estimated-to-Actual Maintenance / Preservation (in Thousands)\*

	<u>2007</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>	<u>2003</u>
Estimated	<u>\$129,138</u>	<u>\$135,991</u>	<u>\$138,517</u>	<u>\$122,662</u>	<u>\$129,180</u>
Actual	<u>\$256,571</u>	<u>\$211,347</u>	<u>\$311,397</u>	<u>\$133,765</u>	<u>\$146,352</u>

\* The estimated expenditure represents annual Bond Bill authorizations. The actual expenditure represents the current year spending, which includes cumulative authorizations.

**State of Delaware  
Department of Transportation**

**Supplementary Information for Governments  
That Use the Modified Approach for  
Infrastructure Assets (Continued)**

**See Independent Auditors' Report**

The condition of road pavement is measured using the Overall Pavement Condition (OPC) system, which is based on the extent and severity of various pavement distresses that are visually observed. The OPC system uses a measurement scale that is based on a condition index ranging from 0 for poor pavement to 5 for pavement in excellent condition.

The condition of bridges is measured using the "Bridge Condition Rating" (BCR), which is based on the FHWA Coding Guide, "Recording and Coding Guide for the Structure Inventory and Appraisal of the Nation's Bridges." The BCR uses a measurement scale that is based on a condition index ranging from 0 to 9, 0 to 4 for substandard bridges and 9 for bridges in perfect condition. For these reporting purposes, substandard bridges were classified as those with a rating of 4 or less. The good or better condition bridges were taken as those with ratings of 6 to 9. A 5 rating is considered fair. The information is taken from past "Bridge Inventory Status" reports.

It is the State's policy to maintain at least 85% of its highways at a fair or better condition level and 75% of its bridge systems at a good or better condition level. No more than 10% of bridges and 15% of roads should be in substandard condition. Condition assessments are determined every year for roads and every two years for bridges. Due to the timing of these condition assessments, information for the fiscal year ended June 30, 2007 is not available.

## **Additional Information**

**State of Delaware  
Department of Transportation**

**Schedule of Revenue Bond Coverage**

**June 30, 2007  
See Independent Auditors' Report**

Oversight responsibility for the issuance of debt by the State and its authorities is centralized under the Secretary of Finance. The following table sets forth certain indebtedness of the Department. Further information for the Department may be found in the notes to financial statements, changes in long-term liabilities and bonds outstanding.

(in Thousands)

Fiscal Year	Gross Pledged Revenue	Debt Service Requirements			Coverage*
		Principal	Interest	Total	
1998	\$ 252,966	\$ 31,585	\$ 30,176	\$ 61,761	4.10
1999	268,650	33,300	32,718	66,018	4.07
2000	292,201	35,330	30,809	66,139	4.42
2001	293,026	35,315	37,537	72,852	4.02
2002	303,794	39,565	35,269	74,834	4.06
2003	302,754	41,490	44,957	86,447	3.50
2004	308,091	47,640	38,176	85,816	3.59
2005	300,820	53,920	39,370	93,290	3.22
2006	337,350	58,445	40,573	99,018	3.41
2007	346,954	61,370	45,534	106,904	3.25

\* The above coverage calculation represents the total gross pledged revenue as it relates to the total debt service requirement of all senior and junior bonds. The calculation method used in the Official Statement per the Trust Agreement calculates only the senior bond debt service requirement and subtracts investment income revenue from gross pledged revenue.